

# **LOS ANGELES UNIFIED SCHOOL DISTRICT**

Audit Report

## **COLLECTIVE BARGAINING PROGRAM**

Chapter 961, Statutes of 1975,  
and Chapter 1213, Statutes of 1991

*July 1, 2007, through June 30, 2011*



**JOHN CHIANG**  
California State Controller

June 2014



**JOHN CHIANG**  
**California State Controller**

June 27, 2014

Richard Vladovic, Ed.D., President  
Board of Education  
Los Angeles Unified School District  
333 South Beaudry Avenue, 24<sup>th</sup> Floor  
Los Angeles, CA 90017

Dear Dr. Vladovic:

The State Controller's Office audited the costs claimed by Los Angeles Unified School District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2007, through June 30, 2011.

The district claimed \$2,625,602 for the mandated program. Our audit found that \$850,012 is allowable and \$1,775,590 is unallowable. The costs are unallowable primarily because the district claimed unsupported costs and claimed costs that were ineligible for reimbursement. The State paid the district \$95,231. Allowable costs claimed exceed the amount paid by \$754,781.

If you have any questions, please contact Jim L. Spano, Chief, Mandated Cost Audits Bureau, by telephone at (916) 323-5849.

Sincerely,

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

JVB/sk

cc: Megan Reilly, Chief Financial Officer  
Los Angeles Unified School District  
Maruch Atienza, Director of Accounting  
Los Angeles Unified School District  
Marlene Dunn, Director  
Business Advisory Services  
Los Angeles County Office of Education  
Peter Foggiano, Director  
School Fiscal Services Division  
California Department of Education

Carol Bingham, Senior Fiscal Policy Advisor  
Government Affairs Division  
California Department of Education  
Thomas Todd, Assistant Program Budget Manager  
Education Systems Unit  
California Department of Finance  
Jay Lal, Manager  
Division of Accounting and Reporting  
State Controller's Office

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# Audit Report

## Summary

The State Controller's Office (SCO) audited the costs claimed by Los Angeles Unified School District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2007, through June 30, 2011.

The district claimed \$2,625,602 for the mandated program. Our audit found that \$850,012 is allowable and \$1,775,590 is unallowable. The costs are unallowable primarily because the district claimed unsupported costs and claimed costs that were ineligible for reimbursement. The State paid the district \$95,231. Allowable costs claimed exceed the amount paid by \$754,781.

## Background

In 1975, the State enacted the Rodda Act (Chapter 961, Statutes of 1975), requiring the employer and employee to meet and negotiate, thereby creating a collective bargaining atmosphere for public school employers. The legislation created the Public Employment Relations Board to issue formal interpretations and rulings regarding collective bargaining under the Rodda Act. In addition, the legislation established organizational rights of employees and representational rights of employee organizations, and recognized exclusive representatives relating to collective bargaining.

On July 17, 1978, the Board of Control (now the Commission on State Mandates [CSM]) determined that the Rodda Act imposed a state mandate upon school districts reimbursable under Government Code section 17561.

Chapter 1213, Statutes of 1991, added Government Code section 3547.5, requiring school districts to publicly disclose major provisions of a collective bargaining effort before the agreement becomes binding.

On August 20, 1998, the CSM determined that this legislation also imposed a state mandate upon school districts reimbursable under Government Code section 17561. Costs of publicly disclosing major provisions of collective bargaining agreements that districts incurred after July 1, 1996, are allowable.

Claimants are allowed to claim increased costs. For components G1 through G3, increased costs represent the difference between the current-year Rodda Act activities and the base-year Winton Act activities (generally, fiscal year 1974-75), as adjusted by the implicit price deflator. For components G4 through G7, increased costs represent actual costs incurred.

The seven components are as follows:

- G1 - Determining bargaining units and exclusive representatives
- G2 - Election of unit representatives
- G3 - Costs of negotiations
- G4 - Impasse proceedings

- G5 - Collective bargaining agreement disclosure
- G6 - Contract administration
- G7 - Unfair labor practice costs

The program's parameters and guidelines establish the state mandate and define reimbursement criteria. The CSM adopted the parameters and guidelines on October 22, 1980 and amended them ten times, most recently on January 29, 2010. In compliance with Government Code section 17558, the SCO issues claiming instructions to assist local agencies and school districts in claiming mandated program reimbursable costs.

## **Objective, Scope, and Methodology**

We conducted the audit to determine whether costs claimed represent increased costs resulting from the Collective Bargaining Program for the period of July 1, 2007, through June 30, 2011.

Our audit scope included, but was not limited to, determining whether costs claimed were supported by appropriate source documents, were not funded by another source, and were not unreasonable and/or excessive.

We conducted this performance audit under the authority of Government Code sections 12410, 17558.5, and 17561. We did not audit the district's financial statements. We conducted the audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

We limited our review of the district's internal controls to gaining an understanding of the transaction flow and claim preparation process as necessary to develop appropriate auditing procedures.

## **Conclusion**

Our audit found instances of noncompliance with the requirements outlined above. These instances are described in the accompanying Summary of Program Costs (Schedule 1) and in the Findings and Recommendations section of this report.

For the audit period, Los Angeles Unified School District claimed \$2,625,602 for costs of the Collective Bargaining Program. Our audit found that \$850,012 is allowable and \$1,775,590 is unallowable.

For the fiscal year (FY) 2007-08 claim, the State paid the district \$3. Our audit found that \$409,049 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$409,046, contingent upon available appropriations.

For the FY 2008-09 claim, the State paid the district \$54,143. Our audit found that \$165,266 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$111,123, contingent upon available appropriations.

For the FY 2009-10 claim, the State paid the district \$40,085. Our audit found that \$131,701 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$91,616, contingent upon available appropriations.

For the FY 2010-11 claim, the State paid the district \$1,000. Our audit found that \$143,996 is allowable. The State will pay allowable costs claimed that exceed the amount paid, totaling \$142,996, contingent upon available appropriations.

### **Views of Responsible Officials**

We issued a draft audit report on February 26, 2014. Megan K. Reilly, Chief Financial Officer, responded by letter dated April 1, 2014 (Attachment), disagreeing with the audit results for Finding 1, and agreeing with the audit results for Finding 2. This final report includes the district's response.

### **Restricted Use**

This report is solely for the information and use of the Los Angeles Unified School District, the Los Angeles County Office of Education, the California Department of Education, the California Community Colleges Chancellor's Office, the California Department of Finance, and the SCO; it is not intended to be and should not be used by anyone other than these specified parties. This restriction is not intended to limit distribution of this report, which is a matter of public record.

*Original signed by*

JEFFREY V. BROWNFIELD, CPA  
Chief, Division of Audits

June 27, 2014

# Schedule 1— Summary of Program Costs July 1, 2007, through June 30, 2011

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2007, through June 30, 2008</u>				
Direct costs				
Component activity G1:				
Contract services	\$ 35,145	\$ 35,145	\$ —	
Increased direct costs, G1	35,145	35,145	—	
Component activity G3:				
Salaries and benefits	163,580	163,580	—	
Contract services	227,185	227,185	—	
Subtotal	390,765	390,765	—	
Less base-year direct costs adjusted by the implicit price deflator <sup>2</sup>	(390,765)	(390,765)	—	
Increased direct costs, G3	—	—	—	
Component activities G4 through G7:				
Salaries and benefits	1,146,047	355,398	(790,649)	Finding 1
Contract services	6,515	6,515	—	
Increased direct costs, G4 through G7	1,152,562	361,913	(790,649)	
Total increased direct costs, G1 through G7	1,187,707	397,058	(790,649)	
Indirect costs	27,750	11,991	(15,759)	Finding 2
Total program costs	<u>\$ 1,215,457</u>	409,049	<u>\$ (806,408)</u>	
Less amount paid by the State		(3)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 409,046</u>		
<u>July 1, 2008, through June 30, 2009</u>				
Direct costs				
Component activity G1:				
Salaries and benefits	\$ 226	\$ 226	\$ —	
Increased direct costs, G1	226	226	—	
Component activities G1 through G3:				
Salaries and benefits	103,953	103,953	—	
Contract services	174,153	174,153	—	
Subtotal	278,106	278,106	—	
Less base-year direct costs adjusted by the implicit price deflator <sup>2</sup>	(278,106)	(278,106)	—	
Increased direct costs, G3	—	—	—	



**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2008, through June 30, 2009 (continued)</u>				
Component activities G4 through G7:				
Salaries and benefits	404,847	136,696	(268,151)	Finding 1
Contract services	20,235	20,235	—	
Increased direct costs, G4 through G7	425,082	156,931	(268,151)	
Total increased direct costs, G1 through G7	425,308	157,157	(268,151)	
Indirect costs	11,916	8,109	(3,807)	Finding 2
Total program costs	<u>\$ 437,224</u>	165,266	<u>\$ (271,958)</u>	
Less amount paid by the State		(54,143)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 111,123</u>		
<u>July 1, 2009, through June 30, 2010</u>				
Direct costs				
Component activity G1:				
Salaries and benefits	<u>\$ 62</u>	<u>\$ 62</u>	<u>\$ —</u>	
Increased direct costs, G1	62	62	—	
Component activity G3:				
Salaries and benefits	222,205	222,205	—	
Contract services	224,174	224,174	—	
Subtotal	446,379	446,379	—	
Less base-year direct costs adjusted by the implicit price deflator <sup>2</sup>	(446,379)	(446,379)	—	
Increased direct costs, G3	—	—	—	
Component activities G4 through G7:				
Salaries and benefits	502,419	126,136	(376,283)	Finding 1
Contract services	1,979	1,979	—	
Increased direct costs, G4 through G7	504,398	128,115	(376,283)	
Total increased direct costs, G1 through G7	504,460	128,177	(376,283)	
Indirect costs	7,653	3,524	(4,129)	Finding 2
Total Program costs	<u>\$ 512,113</u>	131,701	<u>\$ (380,412)</u>	
Less amount paid by the State		(40,085)		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ (91,616)</u>		

**Schedule 1 (continued)**

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>July 1, 2010, through June 30, 2011</u>				
Direct costs				
Component activity G1:				
Salaries and benefits	\$ 398	\$ 398	\$ —	
Increased direct costs, G1	398	398	—	
Component activity G3:				
Salaries and benefits	137,146	137,146	—	
Contract services	130,208	130,208	—	
Subtotal	267,354	267,354	—	
Less base-year direct costs adjusted by the implicit price deflator <sup>2</sup>	(267,354)	(267,354)	—	
Increased direct costs, G3	—	—	—	
Component activities G4 through G7:				
Salaries and benefits	442,864	132,690	(310,174)	Finding 1
Contract services	7,891	7,891	—	
Increased direct costs, G4 through G7	450,755	140,581	(310,174)	
Total increased direct costs, G1 through G7	451,153	140,979	(310,174)	
Indirect costs	9,655	3,017	(6,638)	Finding 2
Total program costs	\$ 460,808	143,996	\$ (316,812)	
Less amount paid by the State		(1,000)		
Allowable costs claimed in excess of (less than) amount paid		\$ 142,996		
<u>Summary: July 1, 2007, through June 30, 2011</u>				
Direct costs				
Component activity G1:				
Salaries and benefits	\$ 686	\$ 686	\$ —	
Contract services	35,145	35,145	—	
Increased direct costs, G1	35,831	35,831	—	
Component activity G3:				
Salaries and benefits	627,570	627,570	—	
Contract services	790,865	790,865	—	
Subtotal	1,418,435	1,418,435	—	
Less base-year direct costs adjusted by the implicit price deflator	(1,382,604)	(1,382,604)	—	
Increased direct costs, G3	35,831	35,831	—	

## Schedule 1 (continued)

Cost Elements	Actual Costs Claimed	Allowable per Audit	Audit Adjustments	Reference <sup>1</sup>
<u>Summary: July 1, 2007, through June 30, 2011 (continued)</u>				
Component activities G4 through G7:				
Salaries and benefits	2,496,177	750,920	(1,745,257)	Finding 1
Contract services	<u>36,620</u>	<u>36,620</u>	<u>—</u>	
Increased direct costs, G4 through G7	<u>2,532,797</u>	<u>787,540</u>	<u>(1,745,257)</u>	
Total increased direct costs, G1 through G7	2,568,628	823,371	(1,745,257)	
Indirect costs	<u>56,974</u>	<u>26,641</u>	<u>(30,333)</u>	Finding 2
Total program costs	<u>\$ 2,625,602</u>	850,012	<u>\$ (1,775,590)</u>	
Less amount paid by the State		<u>(95,231)</u>		
Allowable costs claimed in excess of (less than) amount paid		<u>\$ 754,781</u>		

<sup>1</sup> See the Findings and Recommendations section.

<sup>2</sup> The district offset Component G3 current-year direct costs against base-year direct costs as adjusted by the implicit price deflator, consistent with Method B of the SCO's claiming instructions.

# Findings and Recommendations

## FINDING 1— Overstated salaries, benefits, and related indirect costs

The district claimed \$2,496,177 in salaries and benefits during the audit period. We found that \$750,920 is allowable and \$1,745,257 is unallowable. Related unallowable indirect costs totaled \$54,701.

The costs are unallowable primarily because the district:

- Claimed costs for planning and preparing for arbitration and mediation meetings and did not provide support to validate whether the employees were planning and preparing for these meetings in a planning session.
- Did not provide adequate documentation to support contract administration training costs claimed.

The following table summarizes the claimed, allowable, and audit adjustment amounts for the audit period by reimbursable component:

	Fiscal Year				
	2007-08	2008-09	2009-10	2010-11	Total
<b><u>Claimed</u></b>					
Salaries and benefits:					
Component G4	\$ -	\$ (17,756)	\$ (1,601)	\$ (318)	\$ (19,675)
Component G5	-	-	(128)	(91)	(219)
Component G6	(1,138,340)	(384,850)	(498,427)	(437,127)	(2,458,744)
Component G7	(7,707)	(2,241)	(2,263)	(5,328)	(17,539)
Total	(1,146,047)	(404,847)	(502,419)	(442,864)	(2,496,177)
<b><u>Allowable</u></b>					
Salaries and benefits:					
Component G4	-	14,075	1,601	318	15,994
Component G5	-	-	128	91	219
Component G6	347,691	120,380	122,144	126,953	717,168
Component G7	7,707	2,241	2,263	5,328	17,539
Total	355,398	136,696	126,136	132,690	750,920
<b><u>Audit Adjustment</u></b>					
Salaries and benefits:					
Component G4	-	(3,681)	-	-	(3,681)
Component G5	-	-	-	-	-
Component G6	(790,649)	(264,470)	(376,283)	(310,174)	(1,741,576)
Component G7	-	-	-	-	-
Total	(790,649)	(268,151)	(376,283)	(310,174)	(1,745,257)
Indirect cost rate	3.02%	5.16%	2.75%	2.14%	
Related indirect costs	(23,878)	(13,837)	(10,348)	(6,638)	(54,701)
Audit adjustment	\$ (814,527)	\$ (281,988)	\$ (386,631)	\$ (316,812)	\$ (1,799,958)

### Component G4- Impasse Proceedings

The district claimed \$19,675 in salaries and benefits for mediation and arbitration meetings. We found that \$15,994 is allowable and \$3,681 is unallowable. The costs are unallowable primarily because the district claimed costs for FY 2008-09 for time spent by an employee preparing/planning for the mediation and arbitration meetings. The parameters and guidelines identify preparation time associated with the

determination of the exclusive representatives as an allowable cost. Preparation time associated with impasse proceedings (mediation/arbitration) is not identified in the parameters and guidelines as an allowable cost.

### **Component G6 – Contract Administration**

The district claimed \$2,458,744 in salaries and benefits for grievance meetings totaling \$896,157 and contract training provided totaling \$1,562,587. We found that \$717,168 is allowable and \$1,741,576 is unallowable. The costs are unallowable for the following reasons:

The unallowable contract administration costs consist of \$1,562,587 in unsupported training costs and \$178,989 in unsupported grievance costs:

	Fiscal Year				
	2007-08	2008-09	2009-10	2010-11	Total
Training costs	\$ 625,830	\$ 244,739	\$ 381,844	\$ 310,174	\$ 1,562,587
Grievance costs	164,819	19,731	(5,561)	—	178,989
Audit adjustment	\$ 790,649	\$ 264,470	\$ 376,283	\$ 310,174	\$ 1,741,576

The unsupported training costs occurred because the district:

- Claimed training costs for district employees without documentation supporting that the costs incurred were for allowable collective bargaining-related activities. These employees included secretarial and office technician classifications that are not reimbursable under the mandate. The mandated program allows costs for supervisory and management personnel;
- Claimed costs from weekly staff meetings, for which the agendas did not specify the number of hours for reimbursable costs for training supervisors and management personnel on contract administration and/or interpretation of the negotiated contract; and
- Claimed hours from employees' mandated activity logs for activities that are not reimbursable under the mandate, such as phone calls, photocopying, preparation and distribution of contracts, and meetings. The district did not identify time for allowable activities.

The unsupported grievance costs relate primarily to time spent by support staff. The district did not support that the classification and duties of these employees involved working on the grievance process.

### **Recommendation**

We recommend that the district ensure that all costs claimed are reimbursable per the parameters and guidelines, and are properly supported. Supporting documentation should identify the mandated functions performed, as required by the claiming instructions.

### District's Response

The auditors state that costs are unallowable primarily because the district:

1. "Claimed costs for planning and preparing for arbitration and mediation meetings and did not provide support to validate whether the employees were planning and preparing for these meetings in a planning session."

The District has provided source documents for claimed costs as required by the parameters and guidelines. The District is prepared to provide additional corroborating documents to support the claims.

2. "Did not provide supporting documentation for grievance cases claimed for FY 2009-10 and FY 2010-11, and claimed employees whose job classifications and duties performed did not involve the grievance process."

The District disputes this finding. District employees with the responsibility of resolving contract grievances logged the time spent on the resolution of these grievances in both FY 2009-10 and FY 2010-11. Support documentation as part of the logging process included the name/ID of the grievant, the name of the union the grievant belongs to, and the section of the contract being grieved. This information was provided by the district to the SCO auditor on September 20, 2012.

3. "Did not provide adequate documentation to support contract administration training costs claimed, and overstated its productive hourly rates (PHR) for some employees, while including other employees in its PHR calculations for whom the district did not provide salary information most of these employees had no allowable hours."

The District has provided source documents for the claimed costs claimed as required by the parameters and guidelines. Specifically, SCO disallowed costs for staff meetings for which the agendas did not specify the number of hours spent on reimbursable costs. The District is prepared to provide additional corroborating documents to support the claims. In addition, the disallowed staff meetings only account for about 4,400 of the total hours claimed for contract administration training costs. This translates to about \$298,000 in disallowed contract administration training costs.

### SCO's Comments

The district's response addresses three specific issues:

1. Cost component G4–Impasse Proceedings related to planning and preparation time for arbitration and mediation meetings
2. Cost component G6–Contract Administration related to grievances
3. Cost component G6 – Contract Administration related to training costs

Our comments respond in the same order as presented.

1. For FY 2008-09, the district claimed costs for time spent by an employee planning/preparing for a mediation session. We determined allowable costs based on documentation the district provided supporting costs claimed as well as allowable reimbursable costs specified in the parameters and guidelines. The parameters and guidelines identify preparation time associated with the determination of the exclusive representatives as an allowable cost. Preparation time associated with impasse proceedings is not identified in the parameters and guidelines as an allowable cost. As such, our adjustment totaling \$3,681 remains unchanged.
2. After further review and analysis of the documentation provided by the district, we concur with the district's comments related to grievance cases for FY 2009-10 and FY 2010-11. Consequently, we decreased the adjustment presented in the draft report for grievances by \$249,097, consisting of \$122,144 for FY 2009-10 (from \$498,427 to \$376,283) and \$126,953 for FY 2010-11 (from \$437,127 to \$310,174). However, the hours claimed by support staff members (i.e., senior secretaries, secretaries, administrative assistants, senior office technicians, and office technicians) for FY 2007-08 and FY 2008-09 remain unallowable as the district did not provide documentation supporting staff involvement relative to the grievance process. We allowed reimbursement costs the district was able to support. We also updated the narrative section of the finding for this change.
3. The district estimated that staff meetings accounted for approximately \$298,000 of the \$1,562,587 claimed. During the audit, the district did not provide documentation to support what portion of the claimed hours related to staff meetings or the time spent on reimbursable contract-related training. In support of claimed costs, the district provided agendas and activity logs to support a variety of activities claimed for contract-related training. Specifically, training costs claimed involved Friday staff meetings and time spent by labor relations staff (e.g., discussion of grievance cases, group interpretations of the contract, PERB complaints, photocopying, preparation and distribution of contracts, and answering contract questions via telephone). In addition, the district claimed training costs for secretarial and office technician classifications, which are not reimbursable under the mandate.

The parameters and guidelines allow costs for a reasonable number of training sessions held for supervisory and management personnel on contract administration/interpretation of the negotiated contract. Contract interpretations at staff meetings are not reimbursable. Consequently, the adjustment remains unchanged.

The district also commented on the adjustment in the draft report related to productive hourly rates. After further review and analysis of the documentation provided by the district, we concur with the district's comments. Consequently, we eliminated the productive hourly rate adjustment presented in the draft report.

**FINDING 2—  
Unclaimed indirect  
costs on contract  
services**

The district did not claim indirect cost for contract services totaling \$24,368. We determined allowable indirect costs by multiplying allowable contract services by the indirect cost rates claimed by the district, which agreed to the rates approved by the California Department of Education (CDE).

The parameters and guidelines allow indirect cost rates provisionally approved by the CDE. The CDE indirect cost rates apply to direct costs (salaries and benefits, materials and supplies, and contract services). The error occurred because the district followed the Collective Bargaining Program's claiming instructions for Form 1, which inadvertently excluded contract services from the calculation of indirect costs. The claiming instructions have since been corrected.

The following table summarizes the calculation of unclaimed indirect costs on contract services for the audit period:

	Fiscal Year			Total
	2007-08	2008-09	2009-10	
Contract services:				
Components G1 through G3	\$ 262,330	\$ 174,153	\$ 224,174	
Components G4 through G7	6,515	20,235	1,979	
	268,845	194,388	226,153	
Indirect cost rate	3.02%	5.16%	2.75%	
Audit adjustment	\$ 8,119	\$ 10,030	\$ 6,219	\$ 24,368

Recommendation

We recommend that the district ensure that it applies its indirect cost rate to the applicable direct cost base and follow the updated guidance in the claiming instructions for calculating its indirect costs.

District's Response

The district agreed with the audit finding.



**Attachment—  
District's Response to  
Draft Audit Report**

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LOS ANGELES UNIFIED SCHOOL DISTRICT

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*Chief Financial Officer*

V. LUIS BUENDIA  
*Controller*

April 1, 2014

Jim L. Spano, Chief  
Mandated Cost Audits Bureau  
Division of Audits  
California State Controller's Office  
P.O. Box 942850  
Sacramento, CA 94250-5874

Re: Los Angeles Unified School District  
Collective Bargaining Program  
Audit of Annual Reimbursement Claim  
For the Period of July 1, 2007, through June 30, 2011

Dear Mr. Spano:

The Los Angeles Unified School District (District) appreciates the opportunity to respond to the preliminary audit findings as outlined in the draft audit report issued by the State Controller's Office (SCO) regarding the costs claimed by the District for the legislatively mandated Collective Bargaining Program (Chapter 961, Statutes of 1975, and Chapter 1213, Statutes of 1991) for the period of July 1, 2007, through June 30, 2011.

**Finding 1: Overstated salaries, benefits, and related indirect costs:**

The preliminary finding states that the District claimed \$2,496,177 in salaries and benefits during the audit period. (\$501,823 was determined to be allowable and \$1,994,354 unallowable). The preliminary finding also states that related unallowable indirect costs totaled \$60,777.

The auditors state that costs are unallowable primarily because the district:

- "Claimed costs for planning and preparing for arbitration and mediation meetings and did not provide support to validate whether the employees were planning and preparing for these meetings in a planning session".
  - District Response: The District has provided source documents for claimed costs as required by the parameters and guidelines. The District is prepared to provide additional corroborating documents to support the claims.

- “Did not provide supporting documentation for grievance cases claimed for fiscal year (FY) 2009-10 and FY 2010-11, and claimed employees whose job classifications and duties performed did not involve the grievance process”.
  - District Response: The District disputes this finding. District employees with the responsibility of resolving contract grievances logged the time spent on the resolution of these grievances in both FY 2009-10 and FY 2010-11. Support documentation as part of the logging process included the name/ID of the grievant, the name of the union the grievant belongs to, and the section of the contract being grieved. This information was provided by the District to the SCO auditors on September 20, 2012.
- “Did not provide adequate documentation to support contract administration training costs claimed, and overstated its productive hourly rates (PHR) for some employees, while including other employees in its PHR calculations for whom the district did not provide salary information. Most of these employees had no allowable hours”.
  - District Response: The District has provided source documents for the claimed costs claimed as required by the parameters and guidelines. Specifically, SCO disallowed costs for staff meetings for which the agendas did not specify the number of hours spent on reimbursable costs. The District is prepared to provide additional corroborating documents to support the claims. In addition, the disallowed staff meetings only account for about 4,400 of the total hours claimed for contract administration training costs. This translates to about \$298,000 in disallowed contract administration training costs.

**Finding 2: Unclaimed indirect costs on contract services:**

The preliminary finding states that the district did not claim indirect cost for contract services totaling \$24,368. The auditors state that “We determined allowable indirect costs by multiplying allowable contract services by the indirect cost rates claimed by the district, which agreed to the rates approved by the California Department of Education (CDE)”.

The preliminary finding also states that “The parameters and guidelines allow indirect cost rates provisionally approved by the CDE. The CDE indirect cost rates apply to direct costs (salaries and benefits, materials and supplies, and contract services). The error occurred because the district followed the Collective Bargaining Program’s claiming instructions for Form 1 which inadvertently excluded contract services from the calculation of indirect costs. The claiming instructions have since been corrected”.

- District Response: The District does not contest this finding.

Jim L. Spano  
April 1, 2014  
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Thank you for allowing the District to respond to these preliminary audit results. We hope that you will take our responses into consideration when issuing the results of the final audit.

If you have any questions, please call me at (213) 241-7888.

Sincerely,

  
*for* Megan K. Reilly  
Chief Financial Officer

c: John Deasy  
Michelle King  
Luis Buendia  
John Walsh  
Vivian Ekchian

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